

**Audit Committee
Meeting Minutes
May 03, 2013**

The Bethany Beach Audit Committee held a meeting on Friday, May 03, 2013 at 10:00 a.m. in the Town Meeting Room.

Members present: Patrick Sheplee, Chairman, who presided; Monte Wisbrock, and Thomas Defibaugh.

Also present: Finance Director, Janet Connery; Internal Auditor, Philip Rossi; Council persons, Jerry Dorfman and Joseph Healy; Roy Geiser of TGM Group LLC; Administrative Secretary, Lindsey Good; and other interested members of the public.

Mr. Sheplee called the meeting to order at 10:00 a.m.

Approval of Agenda

Mr. Wisbrock made a motion to approve the agenda. The motion was seconded by Mr. Defibaugh and unanimously approved.

Motion to Approve the Minutes Dated January 11, 2013

Mr. Defibaugh made a motion to approve the minutes dated January 11, 2013. The motion was seconded by Mr. Wisbrock and unanimously approved.

Report from Accounting Firm TGM Group LLC as to This Year's Audit

Mr. Geisler of TGM Group LLC provided the following report:

They began the audit on Monday and completed the fieldwork on Thursday and it went smoothly since Ms. Connery was very prepared. The financial statements draft will be submitted to Ms. Connery by next week for preliminary review and writing of the Management's Discussion and Analysis (MD&A). The Town is in good shape in every aspect.

He noted that the new tower loan is being worked towards completion right as the current water plant debt will be paid off. He explained that a Single Audit will need to be completed because of this loan. A Single Audit involves more work and the expense will increase by no more than five-thousand dollars (\$5,000). They will review the loan documents and transactions to be sure that all costs were permitted, that the work complied with Davis-Bacon rules, and that all other requirements were properly followed.

The Clarity Standards have been modified, resulting in changed verbiage on the Audit Report and Representation Letter but the impact will be minimal.

Mr. Geiser reviewed with Mr. Rossi the procedure that he uses as an internal auditor, and found that it is a very good approach. He said that Mr. Rossi had reviewed the capital asset records last year and mentioned that his work could be expanded into reviewing charge-offs for water bills and property taxes. He recommends reviewing it further.

Mr. Geiser noted the refund the Town received from Verizon for utility relocation work that was expensed two fiscal years ago. This refund of prior year costs will be clearly differentiated from routine revenues on the financial statements. They may mark it with a footnote referencing explanatory text in the MD&A. Ms. Connery added that in addition to the amount of one-hundred and thirty-four thousand dollars (\$134,000), there is an additional forty-four thousand (\$44,000) that the Town received in a similar situation. The Town paid out funds in last fiscal year as matching funds to an energy grant which DNREC later decided to reimburse as they had money left over. Ms. Connery stated that they will ensure that these are shown in the financials as on-time return of prior year costs.

Mr. Geiser explained that the intended presentation has been discussed with the other auditors, the Finance Director and Councilman Joseph Healy, and all are in agreement. He added that they reviewed the files on the IRS audit and found everything completed well.

Mr. Sheplee questioned what circumstances causes a need for a Single Audit. Mr. Geiser replied that it is required when the spending of Federal funds exceed five-hundred thousand dollars (\$500,000) in a year. The water tower loan is being made by the State, but is originally funded by the EPA.

Mr. Geiser stated that they noticed in the Town's policies that all purchases of two-hundred dollars (\$200) or more must be approved by the Town Manager prior to ordering the item or work. They came across instances where invoices were received before the approved Purchase Order was authorized, and noted that this is understandable. He recommended increasing the purchase amount of two-hundred dollars (\$200) that is required to be approved, and explained that would be more effective since it would bring more attention to a fewer, higher cost items.

Mr. Sheplee asked how long the amount of two-hundred dollars (\$200) and over has been required to be approved. Ms. Connery replied that she thinks it has been that way since she was employed by the Town ten years ago.

After some discussion by the Committee, Mr. Sheplee called for a motion for the Audit Committee to recommend to the Town Manager to change the limit amount for approval of a Purchase Order from two-hundred dollars (\$200) to one-thousand dollars (\$1,000). Mr. Defibaugh seconded the motion and it was unanimously approved. Mr. Sheplee will include the recommendation in his report to Town Council, but it will ultimately be the Town Manager's decision.

Mr. Sheplee asked Mr. Geiser to comment on the Town's Internal Controls. Mr. Geiser explained that they analyzed the audit to identify possible risk areas. The Town has good controls in place, as well as a good Town Council, Internal Auditor and financial leadership. There are also solid accounting policies in effect. Considering the costs and benefits of Internal Controls, he said that what the Town has in place is effective.

The Committee ensued a discussion regarding Mr. Geiser's suggestion for Mr. Rossi to include a review of adjustments to water and tax bills in his internal audit work. Ms. Connery explained that property taxes are adjusted when property assessments change due to actions such as adding

an addition to a house or demolishing a building. Ms. Connery added that water bills are revised to charge a lower rate when the property owner had a documented water leak.

The Committee decided that it will amend the Internal Audit Plan to include the adjustments to water and tax bills. Ms. Connery will e-mail the Committee members a revised version of the Internal Audit Plan to comment on and approve.

Questions/Comments by Audit Committee and Internal Auditor

Mr. Sheplee mentioned that at the previous meeting, the Committee members had a discussion on the grant for replacing the Bethany Beach Police Department's weapons. He asked Mr. Rossi what that status on this was. Mr. Rossi explained that due to inclement weather, the weapons have not yet been tested, and that he contacted Police Chief, Michael Redmon, to let him know that he needs to submit the paperwork to him to review. He assured the Committee that he is working hard to obtain and review the necessary paperwork.

Mr. Geiser expressed his appreciation to the Committee and staff for the opportunity to review the Town's audit controls and that he will be present at the Audit Committee meeting in July.

Mr. Sheplee noted that it is a testament to the Town's staff that audit field work can be completed in only four (4) days.

Mr. Rossi expressed that the Town's employees are extremely cooperative, and he credited the Town Manager and other managers for their excellent operations.

Mr. Defibaugh asked that since the Town is now taking over the Fourth of July Parade Committee, if it will be appropriate for Mr. Rossi to review financial statements of the Committee. Mr. Rossi replied that there is a Committee Treasurer who is responsible for handling all the financial aspects of the Committee.

The next meeting is scheduled for Thursday, July 11th, 2013 at 10:00 a.m. as a tentative date and if necessary, a back-up date of Monday, July 8th was also proposed. The Committee members and auditors were asked to check their scheduled and contact Mr. Sheplee.

Adjourn

Mr. Wisbrock made a motion to adjourn the meeting. The motion was seconded by Mr. Defibaugh and unanimously approved. The meeting was adjourned at 11:23 a.m.